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## DIRECTORATE OF INTELLIGENCE

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### China's Active Diplomacy in Latin America

#### Summary

China this fall may score a string of diplomatic victories against Taiwan in Latin America, hitherto a diplomatic stronghold for Taiwan. Through economic incentives and payoffs, Beijing recently persuaded Bolivia to establish relations with China, and Uruguay and Grenada seem likely to do so before the end of the year. By further undermining Taiwan's international legitimacy, Beijing hopes to sap Taipei's will to resist China's unification overtures. In Central America, Beijing also may see a chance to enhance its "independent" image and to counter Soviet and Cuban influence by cooperating with non-socialist governments, and especially by supporting the Contadora process, which China has publicly endorsed. We expect Beijing to be patient in its pursuit of Taiwan's friends. However, Taipei is attempting to hold on to its position in the region through increased diplomatic representation and economic support.

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This memorandum was prepared [redacted] Office of East Asian Analysis. Information available as of 6 September 1985 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Foreign Affairs, China Division, OEA, [redacted]

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### Chinese Tactics

Over the past year China has aggressively used economic incentives and under the table payments to weaken Taiwan's position in Latin America, where 14 of the 24 countries that still recognize Taipei are located. For example, Latin American diplomats say that Beijing has agreed to make up \$50 million a year in lost Taiwanese aid and trade with Uruguay - probably a key factor in Uruguay's reported decision to establish relations with Beijing by the end of this year. Although this figure is well below Taipei's promise of \$600 million in trade over the next five years, Taiwan's failure to deliver commercial aid to Uruguay as promised in 1984 probably damaged its credibility in Montevideo. We suspect that China made a similar offer to Bolivia.

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### Chinese Demands

In return for its economic aid, Beijing of course insists that countries recognizing China break official relations with Taiwan. It has also sought their acknowledgement of

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Chinese sovereignty over the island. However, in its haste to gain recognition, China has been willing to use its most flexible normalization formula. Beijing recently allowed Grenada to delete a phrase from a joint normalization communique asserting that Taiwan is an inalienable part of Chinese territory. We suspect that China will be equally flexible in reaching terms with other states in the region.

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### Goals and Prospects for the Future

Beijing's main interest is in keeping the diplomatic initiative in Latin America and increasing the pressure on Taiwan. In addition, China may perceive an opportunity to counter Soviet and Cuban influence in the region through relations with the non-socialist Central American governments and through support for the Contadora Process, which Beijing has publicly endorsed. However, China's failure to gain the recognition of Nicaragua, which still has ties with Taiwan, is both a source of embarrassment and an impediment to these goals.

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Economically, China is becoming increasingly capable of competing effectively with Taiwan in Latin America. Excluding Panama, which serves as an entrepot for international exports, Taiwan's annual trade with its Latin American friends amounts to around \$110,000,000 in exports and \$65,000,000 in imports, figures which China is capable of matching. Taiwan's aid to the area is also small.

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Nonetheless, we believe that Taipei's hold in Latin America will be hard to break. Many of the governments that support Taiwan are strongly anti-Communist, such as Paraguay, Haiti, the Dominican Republic, Costa Rica and El Salvador. Some, such as Guatemala and Honduras, also receive military assistance from Taiwan, including anti-Communist psychological warfare training programs for security officers - programs that these countries would hardly trust Beijing to provide. Finally, China probably faces opposition in Nicaragua from the Soviet Union and Cuba, neither of which are enthusiastic about China's attempts to gain influence in Latin America.

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In our judgment, China recognizes these problems, and will be patient in courting Taiwan's friends. We expect China to give priority to the pursuit of the smaller Caribbean island states, which greatly need financial aid, and of opportunists such as Panama, which, according to an unconfirmed source, is currently engaged in negotiations with Beijing.

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Taiwan in turn appears to recognize that it cannot afford to be complacent. For now, it seems intent on protecting its ties with Caribbean and Central American countries, where its advantages are greatest. Taipei has already drafted a "Caribbean Basin Initiative Investment Plan" which relaxes external investment restrictions and provides low interest loans for Taiwan investments in Panama, Costa Rica and the Dominican Republic. Vice President Lee Teng-hui will visit Costa Rica, Panama and Guatemala for a two-week goodwill tour in September, and Taipei plans to establish embassies in St. Lucia, St. Kitts, and Dominica to strengthen its diplomatic representation in the area.

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